



Financial Oversight & Management Board for Puerto Rico

Annual Report

Fiscal Year 2017

July 30, 2017

In accordance with Section 208(a) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), I am pleased to present the first Annual Report of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”). As required by Section 208, this Annual Report is being provided to the President, Congress, the Governor, and the Legislature.

Sincerely,

A handwritten signature in black ink, appearing to read 'JBC', with a long, sweeping horizontal line extending to the right.

José B. Carrión III
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Natalie A. Jaresko
Christian Sobrino Vega

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Executive Summary

The Oversight Board has made substantial progress in its first year toward fulfilling its statutory mandates of helping Puerto Rico to achieve fiscal responsibility, regain access to capital markets, restructure its outstanding debt, and return to economic growth. While the Oversight Board dedicated a significant amount of its attention during this first year toward establishing the structure, governance, policies, and personnel of the Oversight Board itself, it did not delay in tackling its fiscal oversight, financial management, and debt restructuring, responsibilities.

The Oversight Board and its advisors worked with Governor García Padilla and his administration for months on developing fiscal plans, then with the newly elected Governor Rosselló Nevares and his administration. After repeated rounds of discussions between the Government of Puerto Rico and the Oversight Board, the Oversight Board certified the Fiscal Plan that not only has as its overriding goal the achievement of structural fiscal balance, but also specifies revenue and expenditure measures required to move along that path and structural reforms that are critical to the success of that effort. The Oversight Board similarly worked with the Government of Puerto Rico to develop and eventually certify fiscal plans for four instrumentalities of the Commonwealth.

After certifying these fiscal plans, the Oversight Board and Government of Puerto Rico focused their efforts on constructing budgets that aligned with those fiscal plans. Over several bouts of negotiations and after extensive review by numerous advisors, the Oversight Board certified budgets for fiscal year 2018 for the Commonwealth and each of the four instrumentalities which have fiscal plans. With fiscal plans and budgets in place, the Oversight Board now moves to the implementing, reporting, and monitoring phase of assisting the Government of Puerto Rico in achieving fiscal responsibility.

While the Oversight Board devoted the bulk of its efforts to the fiscal plan and budget processes this first year, the Oversight Board has simultaneously made meaningful advances toward restructuring the debt of the Commonwealth and the various covered entities, both through consensual negotiations and Title III filings, and toward fostering the economic growth that is crucial to Puerto Rico's success. The Oversight Board and its advisors have held numerous constructive meetings, mediation sessions, and presentations with creditors to restructure the debt of the Commonwealth and the various covered entities. The Oversight Board has also approved Title III filings for the Commonwealth and some of its instrumentalities to give them the best opportunity to reduce their debt burdens to manageable levels that will not impede economic growth.

Always mindful of the critical importance of economic development to the debt sustainability and economic revitalization of Puerto Rico, the Oversight Board has also developed a process for selecting, implementing, and evaluating critical infrastructure projects under Title V, and engaged a wide array of stakeholders to stimulate economic growth. In recognition of the vital role that economic development plays in the Oversight's Board's efforts, the Oversight Board makes several recommendations in areas in which the Federal Government can assist the Government of Puerto Rico and Oversight Board to unleash greater, more dynamic economic activity on the Commonwealth.

Introduction

The Oversight Board is pleased to submit its first Annual Report pursuant to Section 208(a) of PROMESA. As required, the report covers:

- (1) the progress made by the Government of Puerto Rico in meeting the objectives of PROMESA;
- (2) the assistance provided by the Oversight Board to the Government of Puerto Rico in meeting the purposes of PROMESA;
- (3) recommendations to the President and Congress on changes to PROMESA, other Federal laws, and Federal actions that would assist the Government of Puerto Rico in complying with the Fiscal Plan;
- (4) the manner in which the Oversight Board has spent funds allocated to it; and
- (5) other activities of the Oversight Board.

PROMESA was signed into law by President Barack Obama on June 30, 2016. Following the procedure set forth in Section 101(e), President Barack Obama appointed the seven Members of the Oversight Board on August 31, 2016. The Members immediately went to work on establishing the Oversight Board and working toward fulfilling its mission.

On September 30, 2016, at the first public meeting of the Oversight Board, the Members elected José B. Carrión III to serve as the Chair of the Oversight Board. Since that first public meeting, the Oversight Board has held seven more public meetings, in both Puerto Rico and New York, each of which were open to the public and were streamed on the Oversight Board's website.

Shortly after holding its first public meeting, the Oversight Board began searching for, interviewing, and retaining advisors. These include outside legal advisors (both New York-based and Puerto Rico-based), a strategic consulting firm, an accounting firm, a financial advisor, a public relations firm, an economic advisor, an ethics advisor, and a fee examiner. The Oversight Board has also hired an Executive Director, a General Counsel, and additional staff pursuant to Section 103, and a Revitalization Coordinator pursuant to Section 502. The Oversight Board's staff operates out of offices in San Juan and New York.

Information about the Oversight Board's public meetings, including recorded videos of each meeting, is available on the Oversight Board's website. The website also contains documentation regarding the Oversight Board's request for proposals for advisors, employment contracts for executive staff, and biographical information and financial disclosure paperwork for each Member of the Oversight Board and the executive staff. Also on the website are links to the Oversight Board's bylaws and code of conduct; a calendar of events; contact information; and additional documentation of the Oversight Board's activities, including official correspondence, reports, presentations, and press releases. The website is maintained in both Spanish (www.juntasupervision.pr.gov) and English (www.oversightboard.pr.gov).

Progress by the Government of Puerto Rico

The Government of Puerto Rico, working closely with the Board and its advisors, has made significant progress and achieved a series of important milestones to comply with PROMESA and the Board's directives and to advance consensual negotiations with numerous creditor groups, including, among other things:

I. *Certified Fiscal Plans*

Prepared and obtained approval of Fiscal Plans, as amended by the Oversight Board, for the Commonwealth, Government Development Bank ("GDB"), Highway Transportation Authority ("HTA"), Puerto Rico Aqueduct and Sewer Authority ("PRASA"), and Puerto Rico Electric Power Authority ("PREPA"). Working with the Oversight Board, created a consolidated financial model of baseline revenues and expenses, revenue and expense measures, and component unit roll-ups, which has been a core component of the due diligence for creditors and a reference point in discussions between the Oversight Board and the Government.

The Fiscal Agency and Financial Advisory Authority (known as "AAFAF") coordinated a multi-firm team with the Oversight Board to produce a 50-year long-term projection using the Commonwealth Fiscal Plan as a starting point. This long-term financial projection is being used in creditor negotiations to size the realistic debt capacity of the Government.

II. *Approved Budget*

The Government developed and received approval of a Budget for the Commonwealth, as revised by the Oversight Board, that complies with the certified Fiscal Plan. For the first time, the Commonwealth's Budget includes provisions for all true expenses, including the guarantee of pension payments.

III. *Reports to the Oversight Board*

The Government submitted a report on tax abatements pursuant to Section 208(b). The Government has also provided a number of ad-hoc reports to comply with requests from the Oversight Board. The Government is working on a new regular report that will monitor ongoing financial operations and the impact of the implementation of the measures contained in the Fiscal Plan.

IV. *Office of the CFO*

The Government created the Office of the CFO. The CFO has consolidated and organized cash collections and disbursements across all Government funds, component units, and instrumentalities. The CFO also implemented an initiative to bring together the Treasury Department, Office of Management and Budget ("OMB"), and AAFAF to coordinate and centralize Puerto Rico's financial functions such as

reporting, accounting processes, and systems integration. The CFO has committed the resources and management processes to produce audited financial statements for 2015, 2016, and 2017 before the end of the current fiscal year.

V. *Accountability and Internal Controls*

The Government has implemented process and system upgrades to replace the tracking of checks in the vault with a real accounts payable ledger in order to monitor and control the accounts payable balance. The Government is also currently implementing a solution to capture non-recorded accounts payable to capture the entire universe of outstanding invoices.

VI. *Financial Due Diligence*

The Government has prepared, organized, and distributed over 1700 documents via an electronic dataroom that creditors and advisors can access. The Government has also developed a detailed debt service model for all of the Government's debt issuers, which is being used by AAFAF to track debt services reserves and monitor potential defaults.

VII. *Debt Negotiations*

The Government has held extensive negotiations with the General Obligation ("GO") and Sales Tax Financing Corporation (known as "COFINA") creditors, which has included preparing proposals and supporting financial analysis, participating in mediation sessions, and exchanging term sheets.

The Government conducted restructuring negotiations with GDB's creditors – the Ad Hoc Bondholders, Cooperativas, and Bonistas del Patio – which culminated in a consensual agreement in May 2017.

The Government renegotiated the pre-existing restructuring support agreement with creditors and obtained significantly better terms. Negotiations with creditors continue in Title III in coordination with PREPA's transformation plans. The Government also guaranteed a supply agreement with PREPA's largest fuel supplier to ensure uninterrupted access to fuel while PREPA remains in Title III.

As part of ongoing negotiations with PRASA's senior and junior creditors, the Government has prepared proposals, completed creditor financial due diligence, received certification for a Fiscal Plan from the Oversight Board, and negotiated a forbearance agreement with the federal agency creditors.

The Government has held initial conversations with HTA's creditors and presented a restructuring proposal developed in conjunction with the GO/COFINA mediation process. Since HTA's Title III filing, the Government has focused on creditor due diligence and litigation discovery.

The Government is developing a restructuring strategy and a proposal for creditors of the University of Puerto Rico (“UPR”). AAFAF and its advisors have negotiated the terms of a forbearance agreement with UPR’s revenue bondholders.

The Government is developing a proposal for the restructuring of the Puerto Rico Infrastructure Financing Authority (“PRIFA”), organizing an electronic dataroom for creditors, and maintaining an active dialogue with creditors.

AAFAF, its advisors, and the Puerto Rico Industrial Development Company (“PRIDCO”) management have developed a 10-year financial forecast which will be the foundation of consensual creditor negotiations to restructure PRIDCO’s debt.

The Government is developing a restructuring strategy for the Puerto Rico Convention Center District Authority (“PRCCDA”) that aligns with its policy objectives.

The Government’s negotiations with the principal creditor of the Metropolitan Bus Authority (“MBA”) are in advanced stages.

The Government is drafting the necessary legislation to implement a fiscal plan for the Credit Unions Supervision and Insurance Corporation (known as “COSSEC”). AAFAF and its advisors have completed stress testing of cooperatives (“cooperativas”) and are working to address any vulnerabilities.

XVIII. *Select Executive Orders*

- Executive Order 2017-001. Directs government agencies to cut their total fiscal year 2017 budgets by 10% from January to June 2017.
- Executive Order 2017-002. Creates a Center for Federal Opportunities within the Governor’s office to provide consulting services to agencies and NGOs to better take advantage of federal funding opportunities.
- Executive Order 2017-003. Declares an infrastructure state of emergency and provides an expedited process for approval and implementation of critical infrastructure projects.
- Executive Order 2017-004. Creates an interagency group to coordinate work by various agencies to streamline permitting and regulatory approvals for critical infrastructure projects.
- Executive Order 2017-005. Establishes a public policy requirement that government agencies have zero-based budgets starting in fiscal year 2018.
- Executive Order 2017-009. Orders additional budget cuts of 5% in all Government acquisitions.
- Executive Order 2017-14. Reestablishes the Office of the Chief Information Officer.
- Executive Order 2017-15. Creates the Puerto Rico Innovation and Technology Service (PRITS).
- Executive Order 2017-31. Extends the fiscal emergency and provides for special measures to allow GDB to continue carrying out its operations.
- Executive Order 2017-033. Authorizes AAFAF, OMB, and the Treasury Department to supervise the implementation of the budget control measures.

XVIII. *Select Legislation*

- Act 1-2017 – The Participative Public Private Partnerships Act. Strengthens the P3 legal framework to facilitate critical infrastructure investments and improve public services.
- Act 2-2017 – The Puerto Rico Fiscal Agency and Financial Advisory Act. Creates the necessary legal framework to implement and comply with PROMESA and with the Commonwealth's certified Fiscal Plan.
- Law 3-2017 – The Act to Attend Puerto Rico's Fiscal, Budget and Economic Crisis and to Guarantee the Operation of Government of the Government. Allows for taking immediate emergency and cost cutting measures to reduce the Government's operating expenses.
- Act 4-2017 – The Labor Transformation and Flexibility Act. Amends labor laws with the intention of improving labor market competitiveness, improving the labor participation rate, and halting the migration of citizens to external labor markets.
- Act 5-2017 – The Puerto Rico Financial Emergency and Fiscal Responsibility Act. Prioritizes essential services over debt payments and extends the emergency period for revenue clawbacks to August 1, 2017 pursuant to Executive Order 2017-31.
- Act 8-2017 – The Act for the Administration and Transformation of Human Resources in Government. Allows for the transfer of workers across the Government to save \$100 million through mobility and attrition.
- Act 13-2017 – Enterprise Puerto Rico Act. Creates a not-for-profit corporation to promote the economic development of Puerto Rico, attract foreign direct investment and incentivize investments in technology in collaboration with the private sector.
- Act 17-2017 – Act to Promote Puerto Rico as a Destination. Enables the creation of a destination marketing organization (DMO).
- Act 18-2018 – Reforms, simplifies and expedites the permitting process in order to improve quality and efficiency in processing requests for all permits, licenses, inspections, complaints, certifications, consultations, or any other authorization that affects in any way the operation of a business in Puerto Rico, including those issued by municipalities.
- Act 20-2017 – Department of Public Safety Act. Consolidates law enforcement and other public safety agencies under a Public Safety Department.
- Act 24-2017 – Increases transit violation penalties and fines.
- Act 25-2017 – Provides measures for enforcing collection of sales taxes on internet transactions to generate \$35 million to \$55 million in new revenue.
- Act 26-2017 – The Fiscal Plan Compliance Act. Levels out marginal benefits across the Government and its instrumentalities to generate \$130 million in savings, increases revenues, and expedites the process of asset disposition.
- Act 37-2017 – Reorganizes PREPA's Board of Directors.
- Act 46-2017 – Extends the emergency period established by Act 5-2017.

Assistance Provided by the Oversight Board

The Oversight Board and its advisors have provided significant assistance to the Government of Puerto Rico in its efforts to meet the purposes of PROMESA, including, among other things:

I. *Certifying Fiscal Plans for the Commonwealth, GDB, HTA, PRASA, PREPA*

On September 30, 2016, at the Oversight Board's first public meeting, the Oversight Board created a process for the development, submission, approval, and certification of Fiscal Plans for the Government of Puerto Rico and for covered territorial instrumentalities; and requested that the Governor submit a fiscal plan for the Commonwealth.

The Oversight Board also designated the following as covered entities: the Commonwealth, 9-1-1 Service Governing Board, Additional (Electronic) Lottery, Agricultural Enterprises Development Administration, Automobile Accidents Compensation Administration, Cardiovascular Center Corporation of Puerto Rico and the Caribbean, Commonwealth of Puerto Rico Regional Center Corporation, Company for the Integral Development of the "Península de Cantera," Corporation for the Caño Martín Peña Project (ENLACE), Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico, Culebra Conservation and Development Authority, Economic Development Bank of Puerto Rico, Employees Retirement System ("ERS"), Employment and Training Enterprises Corporation, Farm Insurance Corporation of Puerto Rico, Fine Arts Center Corporation, AAFAF, GDB, Institute of Puerto Rican Culture, Institutional Trust of the Nation Guard of Puerto Rico, Judiciary Retirement System, Land Authority of Puerto Rico, Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads, Model Forest, Municipal Revenue Collection Center, Musical Arts Corporation, Port of the Americas Authority, PRASA, PREPA, HTA, PRIFA, Puerto Rico Maritime Shipping Authority, Puerto Rico Medical Services Administration, COFINA, Public Building Authority, COSSEC, Puerto Rico and Municipal Islands Transport Authority, Puerto Rico Conservatory of Music Corporation, PRCCDA, Puerto Rico Counsel on Education, Puerto Rico Health Insurance Administration, PRIDCO, Puerto Rico Industrial, Tourist, Medical, and Environmental Control Facilities Financing Authority, Puerto Rico Integrated Transit Authority, Puerto Rico Land Administration, MBA, Puerto Rico Municipal Finance Agency, Puerto Rico Ports Authority, Puerto Rico Public Broadcasting Corporation, Puerto Rico Public Private Partnerships Authority, Puerto Rico School of Plastic Arts, Puerto Rico Telephone Authority, Puerto Rico Tourism Company, Puerto Rico Trade and Export Company, Solid Waste Authority, Special Communities Perpetual Trust, State Insurance Fund Corporation, Teachers' Retirement System, The Children's Trust Fund, Traditional Lottery, Unemployment Insurance Fund, UPR, and University of Puerto Rico Comprehensive Cancer Center.

On October 14, 2016, at the Oversight Board's second public meeting, the Oversight Board requested that certain instrumentalities submit separate Fiscal Plans from the Commonwealth.

On November 18, 2016, at the Oversight Board's third public meeting, the Oversight Board established a procedure to approve transactions of covered entities; requested separate Fiscal Plans from certain

covered instrumentalities; received comments from a variety of stakeholders on the Fiscal Plan proposed for the Commonwealth; enumerated guiding principles for the Oversight Board's evaluation of proposed Fiscal Plans; reported on the results of a survey that solicited comments from the public on the proposed Fiscal Plan for the Commonwealth; and announced a proposed timeline for reviewing and certifying the Fiscal Plan for the Commonwealth.

On January 28, 2017, at the Oversight Board's fourth public meeting, the Oversight Board gave the new Governor of Puerto Rico until February 21, 2017 to submit Fiscal Plans for PRASA, PREPA, GDB, HTA, and COSSEC, until February 28, 2017 to submit a Fiscal Plan for the Commonwealth, and until March 31, 2017 to submit a Fiscal Plan for the University of Puerto Rico.

On March 13, 2017, at the Oversight Board's fifth public meeting, the Oversight Board received a presentation on the Governor's proposed Fiscal Plan for the Commonwealth, as revised to incorporate comments from the Oversight Board; heard comments on the proposed Fiscal Plan for the Commonwealth from the public; provided comments and recommendations on the Governor's proposed Fiscal Plan for the Commonwealth; and certified the Governor's proposed Fiscal Plan for the Commonwealth with two amendments that covered furloughs, Christmas bonuses, and public pension systems.

On April 28, 2017, at the Oversight Board's seventh public meeting, the Oversight Board received a presentation on the Governor's proposed Fiscal Plans for GDB, HTA, PRASA, and PREPA, each as revised to incorporate comments from the Oversight Board; heard comments on the proposed Fiscal Plans for GDB, HTA, PRASA, and PREPA from the public; provided comments and recommendations on the Governor's proposed Fiscal Plans for GDB, HTA, PRASA, and PREPA; and certified the Governor's proposed Fiscal Plans for GDB, HTA, PRASA, and PREPA subject to certain amendments.

II. *Certifying Budgets for the Commonwealth, GDB, HTA, PRASA, PREPA*

On March 13, 2017, at the Oversight Board's fifth public meeting, the Oversight Board requested that the Governor of Puerto Rico provide a proposed Budget for the Commonwealth of Puerto Rico, a detailed implementation plan for the measures contained in the certified Fiscal Plan, and a revised liquidity plan.

On June 30, 2017, at the Oversight Board's eighth public meeting, the Oversight Board received a presentation on the Governor's proposed Budget for the Commonwealth, GDB, HTA, PRASA, and PREPA, as revised to incorporate comments from the Oversight Board; heard comments on the proposed Budget for the Commonwealth, GDB, HTA, PRASA, and PREPA from the public; provided comments and recommendations on the Governor's proposed Budget for the Commonwealth, GDB, HTA, PRASA, and PREPA; and certified the Governor's proposed Budget for the Commonwealth, GDB, HTA, PRASA, and PREPA.

III. *Improving the Government of Puerto Rico's fiscal governance, accountability, internal controls, and financial affairs*

On September 30, 2016, at the Oversight Board's first public meeting, the Oversight Board asked the Governor to provide a significant amount of financial and budgetary information about the Commonwealth.

On October 14, 2016, at the Oversight Board's second public meeting, the Oversight Board hosted the Governor as he and his financial team delivered a presentation on the Commonwealth's fiscal and financial situation.

On November 18, 2016, at the Oversight Board's third public meeting, the Oversight Board obtained a detailed liquidity report for the Government of Puerto Rico.

On January 28, 2017, at the Oversight Board's fourth public meeting, the Oversight Board obtained a detailed liquidity report for the Government of Puerto Rico.

IV. *Participating in negotiations and mediation sessions with creditors to reach consensual resolutions to debt restructuring for the Commonwealth and covered territorial instrumentalities*

On January 28, 2017, at the Oversight Board's fourth public meeting, the Oversight Board extended the PROMESA stay to May 1, 2017 to provide more time to reach agreements on debt restructurings.

In March 2017, the Oversight Board and the Government of Puerto Rico requested that holders of the Commonwealth's GO bonds and debt issued by COFINA participate in mediation. The GO and COFINA debts collectively account for approximately 55% of the total debt to be restructured. Ultimately, the mediation commenced on April 13, 2017 under the auspices of former Bankruptcy Judge Allan Gropper, who was nominated by a plurality of the creditors. Despite several mediation sessions and other private negotiations, no agreements were reached before the expiration of the PROMESA stay.

On April 28, 2017, at the Oversight Board's seventh public meeting, the Oversight Board described its efforts with the Government of Puerto Rico to engage with creditors in one-on-one meetings, group sessions, and mediation proceedings.

Throughout the last fiscal year, the Oversight Board and its advisors have also held negotiations, meetings, and presentations with creditors for PRASA, PREPA, and GDB to try to restructure their obligations consensually.

V. *Developing and approving Title III filings for the Commonwealth, COFINA, HTA, ERS, PREPA*

On May 1, 2017, at the Oversight Board's first executive session, the Oversight Board approved Title III filings for the Commonwealth and COFINA.

On May 21, 2017, the Oversight Board, by unanimous written consent, approved Title III filings for ERS and HTA.

On June 27, 2017, at the Oversight Board's third executive session, the Oversight Board voted against a resolution to authorize PREPA to avail itself of the procedures under Section 601 and to certify the PREPA restructuring support agreement.

On June 30, 2017, at the Oversight Board's eighth public meeting, the Oversight Board confirmed that the Oversight Board did not certify the restructuring support agreement for PREPA pursuant to Section 104(i)(1), did not certify the restructuring support agreement for PREPA pursuant to Section 601(g)(2)(A) or 601(g)(2)(B), did not approve the issuances of debt embodied in the restructuring support agreement pursuant to Section 207, and did not authorize PREPA to be eligible to avail itself of the procedures under Section 601; and decided to certify a Title III filing for PREPA.

VI. *Initiating the Critical Projects Process by developing criteria and processes for selecting critical energy and infrastructure projects to be expedited*

On September 30, 2016, at the Oversight Board's first public meeting, the Oversight Board began the search process for hiring key Staff such a Revitalization Coordinator.

On October 30, 2016, the Oversight Board submitted to the Governor of Puerto Rico three nominees for the position of interim Revitalization Coordinator.

On April 20-21, 2017, the Oversight Board together with the Government of Puerto Rico hosted a summit on P3 and Title V Critical Projects.

Throughout the last fiscal year, the Oversight Board and interim Revitalization Coordinator have developed the criteria and processes for selecting, implementing, and monitoring critical infrastructure projects, particular in the energy industry.

VII. *Soliciting ideas and initiatives to foster economic development and growth*

On March 31, 2017, at the Oversight Board's sixth public meeting, which was dedicated to the issue of how to advance Puerto Rico's economic development agenda, the Oversight Board heard from a broad base of local stakeholders to hear their perspectives, ideas, and recommendations on the subject of restoring economic growth in Puerto Rico with panel discussions on Puerto Rico's macroeconomy, the Government of Puerto Rico's plan for economic growth, the Congressional Task Force on Economic Growth in Puerto Rico's report, infrastructure, the third sector, Puerto Rican migration, education, tourism, manufacturing, and the private sector.

Recommendations to the Federal Government

The Oversight Board believes that the Commonwealth's recovery and fulfillment of PROMESA's objectives will be significantly aided by the Federal Government taking action to (1) provide economic development initiatives for Puerto Rico, (2) provide assistance to mitigate the significant reduction in federal funding for healthcare in Puerto Rico, and (3) work with the Government of Puerto Rico on a comprehensive overhaul of benefits programs to incentive and promote the right conditions for higher labor participation and labor creation, while maintaining a responsible safety net for the neediest. This view is echoed in the recent, bipartisan Congressional Taskforce on Economic Growth in Puerto Rico report to the House and Senate.

On the other hand, the Oversight Board also believes that any amendments to PROMESA would distract and detract from the Government of Puerto Rico and the Oversight Board doing the hard work of balancing the Commonwealth's budget, restructuring the Commonwealth's obligations, and turning around the Commonwealth's economy.

Accordingly, the Oversight Board looks forward to working with the Federal Government on the three key areas of economic development, healthcare funding, and benefits reform, as well as the other insightful recommendations in the Congressional Taskforce report, in a coordinated manner. To this end, the Oversight Board asks to meet with the relevant Congressional and Executive Branch leadership and staff, and recommends that the Federal Government take the following actions:

I. *Infrastructure/Transportation*

Remove regulatory burden inhibiting cargo commerce between Puerto Rico, the mainland, and international markets to establish Puerto Rico as a regional logistics hub for air and sea cargo by supporting waivers for the Jones Act and Century of Aviation Reauthorization Act, and eliminating the Electronic Export Information filing requirement for goods shipped between the mainland and Puerto Rico.

Direct relevant agencies to support bankable infrastructure projects through reduced red tape, targeted investments, and increased access to credit e.g. supporting monetization of toll credits, and to keep Puerto Rico top-of-mind for infrastructure funding and improvements.

Encourage the U.S. Army Corps of Engineers and ENLACE to finalize the Project Partnership Agreement for the Caño Martín Peña project.

II. *Benefits Reform*

Grant Puerto Rico waivers from federal law to convert federal welfare funding for SNAP, TANF, and Section 8 housing to an Earned Income Tax Credit, to better incentivize workforce participation, while maintaining a responsible safety net for children, people with disabilities, and seniors.

Direct the Health Resources and Services Administration to utilize the Puerto Rico Community Survey when allocating funds to Puerto Rico under the Maternal, Infant, and Early Childhood Home Visiting Program.

III. *Education/Employment*

Ask the Department of Labor to partner with the Commonwealth to act as a test bed for the expansion of apprenticeship programs to link education with marketable skills and employment.

Encourage Department of Homeland Security to carve out a lower investment floor for EB-5 visas relative to states to tailor visa programs to Puerto Rico's needs.

Encourage the National Science Foundation to collaborate with all possible stakeholders to avoid decommissioning Arecibo Observatory and to increase science and education-focused operations.

IV. *Manufacturing*

Establish a Manufacturing USA institute in Puerto Rico to preserve Puerto Rico as a pharmaceutical manufacturing center and to become a global biotech innovation hub.

V. *Tourism*

Request that the Secretary of Commerce appoint at least one member who has special expertise on tourism in Puerto Rico to the United States Travel and Tourism Advisory Board.

VI. *Financial Institutions*

Request that the Community Development Financial Institutions Fund website update its maps to represent visually that Puerto Rico is eligible for its programs, encourage it to increase the number of Community Development Financial Institutions in Puerto Rico, ask that it educate FDIC-insured banks in Puerto Rico about the Bank Enterprise Award program, and encourage it to appoint an individual with experience and expertise in Puerto Rico to the Community Development Advisory Board.

VII. *Technical Assistance*

Dedicate Federal Digital Service personnel to co-create a Common Identity Platform for a centralized online government portal to digitize Puerto Rico's government and streamline citizen interactions with the Commonwealth.

Provide technical assistance from the Internal Revenue Services to Hacienda to improve tax enforcement in Puerto Rico.

Provide technical assistance from the National Credit Union Association to COSSEC to strengthen credit unions in Puerto Rico.

Provide technical assistance from the Department of Energy to PREPA and the Puerto Rico Energy Commission to improve and streamline operations.

Provide technical assistance to Puerto Rican businesses to help them access and compete for General Services Administration contracts.

Provide technical assistance from the International Trade Administration to help Puerto Rican business increase exports.

VIII. *Statistics*

Direct the Census Bureau to include Puerto Rico in federal statistical programs on the same basis as the states to the greatest extent possible.

Direct the National Center for Education Statistics to collect and publish data for Puerto Rico on the same basis as the states to the greatest extent possible.

Direct the Bureau of Labor Statistics and the Census Bureau to take all reasonable steps to include Puerto Rico in the Current Population Survey.

Direct the Bureau of Justice Statistics to include Puerto Rico in its statistical programs on the same basis as the states to the greatest extent possible.

Direct the National Center for Health Statistics to include Puerto Rico in its statistical programs on the same basis as the states to the greatest extent possible.

Direct the Substance Abuse and Mental Health Services Administration to include Puerto Rico in the National Survey on Drug Use and Health.

Direct the Bureau of Economic Analysis to calculate economic statistics for Puerto Rico, including the National Compensation Survey.

Budget for the Oversight Board

Below is a summary of the Oversight Board's financial report for fiscal year 2017. For more information, please see Annex A.

REVENUES:

Contributions from Commonwealth	\$31,000,000
Other revenue	\$12,000
Total revenue	\$31,012,000

EXPENDITURES:

Payroll and related costs	\$338,000
Rent and office costs	\$31,000
Purchased services	\$1,645,000
Transportation and travel costs	\$260,000
Professional services	\$28,534,000
Materials and supplies	\$4,000
Equipment purchases	\$34,000
Other expenditures	\$166,000
Total expenditures	\$31,012,000

Other Activities by the Oversight Board

Other activities of the Oversight Board the last fiscal year include, among other things, the following:

I. *Government Communications*

- Letter to the U.S. Department of Treasury regarding the Commonwealth's proposed Fiscal Plan (October 2016)
- José Carrión testimony before the Indian, Insular and Alaska Native Affairs Subcommittee of the U.S. House of Representatives (March 2017)
- Ana Matosantos testimony before the Indian, Insular and Alaska Native Affairs Subcommittee of the U.S. House of Representatives (March 2017)
- Letter to Small Business Administration pursuant to Section 412(1)(b) (March 2017)
- Meetings with various members of Congress (April 2017)
- Letter to Senators Cotton and Tillis (April 2017)
- Meetings with Environmental Protection Agency and United States Department of Agriculture regarding PRASA (May 2017)
- Meeting with leadership of Puerto Rico Legislature (June 2017)
- Letters to Representative Bishop and Senator Cotton (June 2017)

II. *Speaking Engagements*

- José Carrión keynote speaking engagements, including the Young Presidents Organization (San Juan, P.R., February 2017); the Official Spanish Chamber of Commerce in Puerto Rico (Carolina, P.R., March 2017); the Puerto Rico Chapter of the Associated General Contractors of America (Washington, D.C., March 2017); the American Enterprise Institute (Washington, D.C., May 2017); the Puerto Rico College of Engineers and Surveyors (San Juan, P.R., May 2017); the Puerto Rico Chamber of Commerce (Fajardo, P.R., June 2017)
- Natalie Jaresko speaking engagements, including the Puerto Rico P3 Summit (San Juan, P.R., April 2017); the Puerto Rico Manufacturers Association (Fajardo, P.R., June 2017)
- David Skeel speaking engagements, including the Scalia Law School pension conference (Arlington, VA, December 2016); the University of Pennsylvania Law School panel discussion with the Oversight Board (Philadelphia, PA, February 2017); the Philadelphia Area Municipal Analyst Society (Philadelphia, PA, May 2017); New York Federal Reserve (New York, NY, May 2017)
- Andrew Biggs speaking engagements, including the American Enterprise Institute (Washington, D.C., May 2017)
- Arthur Gonzalez speaking engagements, including Forum on Puerto Rico's Economic Crisis and Debt Restructuring at New York University (New York, NY, March 2017)
- Meeting with students from the University of Puerto Rico (May 2017)

III. *Media Publications*

- José Carrión (El Nuevo Día, December 28, 2016; March 8, 2017)
- David Skeel (El Nuevo Día, November 30, 2016; January 25, 2017)
- Ramón Ruiz (El Nuevo Día, March 1, 2017)
- J. Joaquín Villamil (El Nuevo Día, March 10, 2017)

- Carlos García (El Nuevo Día, March 29, 2017)
- Natalie Jaresko (El Nuevo Día, April 26, 2017)
- Arthur González and David Skeel (El Nuevo Día, May, 31, 2017)
- Andrea Bonime Blanc (El Nuevo Día, July 12, 2017)
- Andrew Biggs, Arthur Gonzalez, Ana Matosantos, and David Skeel (Wall Street Journal, June 29, 2017)

Conclusion

The Oversight Board acknowledges the long road ahead for Puerto Rico but is resolute in fulfilling its mission of helping Puerto Rico to achieve fiscal responsibility, regain access to capital markets, restructure its outstanding debt, and return to economic growth. The Oversight Board has had a productive and promising first year and is eagerly tackling the challenges that await it in its second year.

The Oversight Board is grateful to the governmental agencies and legislative staff, special interest groups, and members of the public, both on the mainland and in Puerto Rico, for the information and insight they've provided during the past year and looks forward to strengthening these relationships in furtherance of the Oversight Board's mission in the upcoming year.